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## **California short \$1 billion in tax revenue, controller says**

By AARON C. DAVIS, Associated Press Writer

Personal income tax receipts coming into the state in January fell \$1.3 billion below Gov. Arnold Schwarzenegger's revenue estimates in the spending plan he released last month, the state controller said Tuesday.

The lower-than-expected revenue raises questions about whether Schwarzenegger will reach his stated goal of eliminating the state's net operating deficit in the budget year beginning in July.

The governor's proposed 2007-2008 budget assumes tax revenue in the current budget year would grow by \$1.1 billion, or 1 percent. In the coming fiscal year, Schwarzenegger also assumed a \$6.8 billion boost, or 7 percent increase.

"Tax payments are down about \$1 billion, and we don't yet have the source of that decrease," said Controller John Chiang, holding a news conference at the state's tax-collection center, where 2006 tax returns have begun to trickle in.

Chiang speculated that the state's slumping housing market might be a cause of the revenue decline. He also said revenue other than personal income tax rose in January, leaving the state short about \$710 million for the month.

H.D. Palmer, spokesman for Schwarzenegger's finance department, said the administration is withholding judgment on the month's tax total until final sales tax and insurance tax revenues are tallied later this week.

"We want to get all the month's revenues, and there's still some key data for January that's yet to come in," Palmer said.

The controller's numbers, however, do include the last estimated tax payments for 2006, which indicate how much the state's richest residents will pay in capital gains and from stock-option income. Those account for the greatest annual revenue variables in the state's budget.

During a press conference touting his plan to overhaul health care in California, Schwarzenegger on Tuesday dismissed news of January's lower tax receipts. He said it would not affect his policy ambitions on health care reform.

"Revenues go up and down," he said. "I am very optimistic. Our economy is doing well and businesses are doing well, so I am very optimistic."

State budget analysts, Wall Street bond-raters and lawmakers have questioned Schwarzenegger's claim that his proposed spending plan for next fiscal year would eliminate California's chronic budget deficit.

In addition to the uncertain tax revenue, Schwarzenegger's \$143.2 billion budget relies on other risky revenue assumptions, analysts say.

The governor's budget assumes increases in property tax revenue and higher income from a rebounding housing market in the second half of 2007.

It bets that the Legislature will immediately approve gambling compacts that it refused to pass last year, bringing more than \$500 million in projected revenue to the state.

Schwarzenegger also assumed the state will win appeals in two court cases that it already has lost at the superior court level. Those two cases could take another \$1.1 billion out of the governor's balanced-budget equation if the state does not prevail.